

Message Text

CONFIDENTIAL

PAGE 01 BONN 03973 01 OF 03 041817Z
ACTION EUR-12

INFO OCT-01 EA-07 ISO-00 SP-02 USIA-06 AID-05 EB-08 NSC-05
TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00 COME-00
FRB-03 INR-07 NSAE-00 XMB-02 OPIC-03 LAB-04 SIL-01
L-03 H-01 PA-01 PRS-01 /093 W
-----041853Z 025862 /43

R 041806Z MAR 77
FM AMEMBASSY BONN
TO SECSTATE WASHDC 6182
INFO AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY ROME
AMEMBASSY TOKYO
USMISSION EC BRUSSELS
USMISSION OECD PARIS
USMISSION USBERLIN
USMISSION NATO BRUSSELS
USNMR SHAPE
AMCONSUL FRANKFURT
AMCONSUL MUNICH
AMCONSUL BREMEN
AMCONSUL DUSSELDORF
AMCONSUL HAMBURG
AMCONSUL STUTTGART
CINC USAFE RAMSTEIN
CINC USAREUR HEIDELBERG
CINC EUR VAIHINGEN

C O N F I D E N T I A L SECTION 01 OF 03 BONN 03973

DEPARTMENT PASS TREASURY, FRB AND CEA

E.O. 11652: GDS
TAGS, ECON, EFIN, GW
SUBJECT: CAPACITY UTILIZATION: STILL TOO LOW TO SPUR
INVESTMENT
CONFIDENTIAL

CONFIDENTIAL

PAGE 02 BONN 03973 01 OF 03 041817Z

REF: (76)BONN 12398

1. SUMMARY: FOLLOWING ON THE REFTEL'S EXAMINATION OF
THE SUBJECT, TWO ADDITIONAL MEASURES OF CAPACITY UTILIZA-
TION HAVE BEEN DEVELOPED, BOTH ALSO SHOWING BELOW-
NORMAL UTILIZATION LEVELS. THE NEWEST, MOST CURRENT AND

COMPREHENSIVE INDUSTRIAL CAPACITY UTILIZATION DATA, REFLECTED 81.2, 6 TO 7 POINTS BELOW "NORMAL", BUT UP ONE PERCENT FROM OCTOBER. INVESTMENT ACTIVITY TO EXPAND CAPACITY DOES NOT SEEM IMMINENT. END SUMMARY.

2. THE MUNICH-BASED IFO INSTITUTE HAS PRODUCED A NEW SERIES (NOT YET PUBLISHED) WHICH IS MORE BROADLY BASED AND THEREFORE MORE REPRESENTATIVE THAN ITS OLD SERIES. (BOTH ARE BASED ON SURVEYS TAKEN EVERY THREE MONTHS.) THE NEW SERIES REFLECTED AN 81.2 PERCENT UTILIZATION RATE FOR JANUARY, UP BY 0.8 PERCENTAGE POINTS FROM OCTOBER AND 6.8 PERCENTAGE POINTS FROM THE CYCLICAL LOW POINT IN JULY 1975. HOWEVER, IT STILL LIES SOMEWHAT BELOW THE 87 TO 88 UTILIZATION LEVEL CONSIDERED BY THE IFO PEOPLE TO BE "NORMAL". THE MAXIMUM UTILIZATION SO FAR RECORDED ON THIS IFO SCALE IS ABOUT 92, WHICH POINT WAS REACHED IN 1970. (SEE TABLE II).

3. SOME CONFUSION HAS RESULTED FROM THE USE OF THE NEW IFO CAPACITY UTILIZATION DATA IN A NARRATIVE CONTAINED IN ITS RECENT MONTHLY PUBLICATION (WIRTSCHAFTSKONJUNKTUR 2, FEBRUARY 1977) WITHOUT ITS BEING IDENTIFIED AS BEING A BREAK FROM THE OLD SERIES (WHICH WILL NEVERTHELESS ALSO CONTINUE TO BE PUBLISHED IN THEIR WEEKLY SCHNELLDIENST). THIS OLD SERIES, WHICH OMITTS THE STEEL AND CHEMICAL INDUSTRIES, FOR EXAMPLE, IS NOT AS REPRESENTATIVE OF OVERALL INDUSTRIAL CAPACITY UTILIZATION. PERHAPS AS A RESULT IT SHOWED A SLIGHTLY HIGHER DEGREE OF UTILIZATION, 83.5 PERCENT, THAN THE NEW

CONFIDENTIAL

PAGE 03 BONN 03973 01 OF 03 041817Z

SERIES (SEE TABLE I). (THIS FIGURE SIGNIFIED AN 0.9 PERCENTAGE POINT INCREASE ON THE COMPARABLE OCTOBER FIGURE.) BOTH THE NEW AND THE OLD IFO SERIES SHOW A 1 PERCENT INCREASE IN CAPACITY UTILIZATION BETWEEN OCTOBER 1976 AND JANUARY 1977. ON THE OTHER HAND, WHILE THE OLD SERIES SHOWED A DIP IN THE UTILIZATION RATE LAST SUMMER, THE NEW SERIES DID NOT AND IS A BIT SMOOTHER OVERALL. WE ARE TOLD THAT EVENTUALLY THE OLD SERIES WILL BE COMPLETELY DROPPED.

4. AN ECONOMICS MINISTRY OFFICIAL TOLD US THAT THEY HAVE DEVELOPED A MEASURE OF CAPACITY UTILIZATION FOR INTERNAL USE. IT COVERS THE ENTIRE ECONOMY, NOT JUST THE MANUFACTURING SECTOR. THIS CALCULATION IS MADE FOR A HALF YEAR PERIOD AND IN IT 100 REPRESENTS THE "AVERAGE" DEGREE OF UTILIZATION AS DETERMINED BY EMPIRICAL EXPERIENCE OVER THE TWENTY-YEAR TIMESPAN FROM 1954-73

CONFIDENTIAL

NNN

CONFIDENTIAL

PAGE 01 BONN 03973 02 OF 03 041823Z
ACTION EUR-12

INFO OCT-01 EA-07 ISO-00 SP-02 USIA-06 AID-05 EB-08 NSC-05
TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00 COME-00
FRB-03 INR-07 NSAE-00 XMB-02 OPIC-03 LAB-04 SIL-01
L-03 H-01 PA-01 PRS-01 /093 W
-----041852Z 025930 /43

R 041806Z MAR 77
FM AMEMBASSY BONN
TO SECSTATE WASHDC 6183
INFO AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY ROME
AMEMBASSY TOKYO
USMISSION EC BRUSSELS
USMISSION OECD PARIS
USMISSION USBERLIN
USMISSION NATO BRUSSELS
USNMR SHAPE
AMCONSUL FRANKFURT
AMCONSUL MUNICH
AMCONSUL BREMEN
AMCONSUL DUSSELDORF
AMCONSUL HAMBURG
AMCONSUL STUTTGART
CINC USAFE RAMSTEIN
CINC USAREUR HEIDELBERG
CINC EUR VAIHINGEN

C O N F I D E N T I A L SECTION 02 OF 03 BONN 03973

(1974-75 EXCLUDED AS BEING "TOO LOW"). THE "MAXIMUM"
DEGREE OF UTILIZATION SO FAR REACHED HAS BEEN 102.5,
THIS HAVING BEEN REACHED IN 1970. THE MOST RECENT
MEASUREMENT IS FOR THE SECOND HALF OF 1976, AND THIS
CONFIDENTIAL

CONFIDENTIAL

PAGE 02 BONN 03973 02 OF 03 041823Z

WAS 95.5. NO "OPTIMUM" RATE IS FIXED IN THIS SYSTEM SINCE IT IS A VARIABLE DEPENDENT ON ECONOMIC POLICY GOALS AND AS A RESULT IS TOO DIFFICULT A CONCEPT TO QUANTIFY, SAID OUR MINISTRY SOURCE. (SEE TABLE III.)

5. WE WERE TOLD BY THE IFO RESEARCHER INVOLVED THAT THEIR FINDINGS SUGGEST THAT ENTREPRENEURS ARE NOT MOTIVATED TO INVEST TO EXPAND PLANT CAPACITY (AS OPPOSED TO INVESTMENT FOR REPLACEMENT AND RATIONALIZATION PURPOSES) UNTIL THE CAPACITY UTILIZATION MEASURE REACHES THE "NORMAL" LEVEL ON THEIR SCALE, IE., 87 TO 88. SINCE THE INDICATOR IS CURRENTLY SIX TO SEVEN POINTS BELOW THIS LEVEL, HE DID NOT SEE CAPACITY EXPANSION INVESTMENT AS TAKING PLACE ON ANY SIGNIFICANT SCALE SOON. ALTHOUGH THEY HAVE NO PRECISE FORECAST OF WHEN THIS MIGHT HAPPEN, THEIR SURVEYS OF BUSINESS EXPECTATIONS FOR THE NEXT SIX MONTHS SHOW A SLIGHT PREDOMINANCE (4 PERCENT MORE RESPONDENTS) OF THOSE WHO FORESAW A WORSENING OF CONDITIONS AS COMPARED TO THOSE WHO FELT IMPROVEMENT WAS IN VIEW. ALSO CITED WAS THE IFO "BUSINESS CLIMATE" INDEX WHICH DROPPED IN JANUARY TO 192.9 FROM 194.2 IN DECEMBER. (THIS INDEX IS SUPPOSED TO BE A COMPOSITE FORWARD INDICATOR.) THESE INDICATORS, HE CONCLUDED, DID NOT BODE WELL FOR A RAPID RUNUP OF THE CAPACITY UTILIZATION, AND HENCE INVESTMENT.

6. ALSO TENDING TO CONFIRM THE FOREGOING WAS ANOTHER IFO SURVEY OF BUSINESS (3,359 FIRMS) REGARDING INVESTMENT PLANNING FOR THE 1976-80 PERIOD WHICH INDICATED THAT ONLY 12 PERCENT OF THE RESPONDENT FIRMS HAD CAPACITY EXPANSION AS A GOAL. ON THE OTHER HAND, IN THE PREVIOUS FIVE-YEAR PERIOD THIS MOTIVE WAS CITED BY 40 PERCENT OF THE FIRMS, AND IN THE DECADE OF THE SIXTIES, IT WAS UP AROUND 50 PERCENT. ON THE HAND, THE HIGH RATE OF FIRMS, 87 PERCENT, CITING "RATIONALIZATION" AS A BASIS FOR NEW INVESTMENT IN THE 1976-80

CONFIDENTIAL

PAGE 03 BONN 03973 02 OF 03 041823Z

PLANNING PERIOD DOES NOT VARY GREATLY FROM THE PATTERN OF THE PAST FIFTEEN YEARS.

7. PERTINENT TABLES FOLLOW:

TABLE I
MANUFACTURING INDUSTRY CAPACITY UTILIZATION
SEASONALLY ADJUSTED -- OLD SERIES

JANUARY	APRIL	JULY	OCTOBER
-----	-----	----	-----

1969	89.1	89.6	90.3	90.0
1970	92.1	91.6	90.3	89.0
1971	88.6	88.4	86.9	86.1
1972	85.7	85.5	85.3	85.9
1973	87.1	87.5	86.5	85.7
1974	84.0	83.1	80.8	78.8
1975	77.3	76.2	76.3	78.4
1976	80.2	82.2	81.8	82.6
1977	83.5			

SOURCE: IFO - MUNICH

CONFIDENTIAL

NNN

CONFIDENTIAL

PAGE 01 BONN 03973 03 OF 03 041821Z
ACTION EUR-12

INFO OCT-01 EA-07 ISO-00 SP-02 USIA-06 AID-05 EB-08 NSC-05
TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00 COME-00
FRB-03 INR-07 NSAE-00 XMB-02 OPIC-03 LAB-04 SIL-01
L-03 H-01 PA-01 PRS-01 /093 W
-----041851Z 025907 /43

R 041806Z MAR 77
FM AMEMBASSY BONN
TO SECSTATE WASHDC 6184
INFO AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY ROME
AMEMBASSY TOKYO
USMISSION EC BRUSSELS
USMISSION OECD PARIS
USMISSION USBERLIN
USMISSION NATO BRUSSELS
USNMR SHAPE
AMCONSUL FRANKFURT
AMCONSUL MUNICH
AMCONSUL BREMEN
AMCONSUL DUSSELDORF
AMCONSUL HAMBURG
AMCONSUL STUTTGART
CINC USAFE RAMSTEIN
CINC USAREUR HEIDELBERG
CINC EUR VAIHINGEN

C O N F I D E N T I A L SECTION 03 OF 03 BONN 03973

TABLE II
MANUFACTURING INDUSTRY CAPACITY UTILIZATION
SEASONALLY ADJUSTED -- NEW SERIES
CONFIDENTIAL

CONFIDENTIAL

PAGE 02 BONN 03973 03 OF 03 041821Z

	JANUARY	APRIL	JULY	OCTOBER
	-----	-----	-----	-----
1970	91.7	91.5	90.8	89.0
1971	87.5	87.0	85.9	84.3
1972	84.1	84.4	84.9	85.4
1973	87.4	87.1	87.1	86.9
1974	85.0	83.2	82.0	79.9
1975	76.2	74.6	74.4	76.1
1976	77.9	79.4	80.0	80.4
1977	81.2			

SOURCE: IFO - MUNICH

TABLE III
CAPACITY UTILIZATION -- ENTIRE ECONOMY
1ST HALF 2ND HALF

	1ST HALF	2ND HALF
	-----	-----
1975	91.4	92.6
1976	94.5	95.5

SOURCE: INTERNAL FRG DOCUMENT

CASH

CONFIDENTIAL

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: DATA, INVESTMENT CLIMATE, ECONOMIC CONDITIONS
Control Number: n/a
Copy: SINGLE
Sent Date: 04-Mar-1977 12:00:00 am
Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 22 May 2009
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1977BONN03973
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Expiration:
Film Number: D770075-0712
Format: TEL
From: BONN
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1977/newtext/t19770394/aaaadesw.tel
Line Count: 319
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 9bef37be-c288-dd11-92da-001cc4696bcc
Office: ACTION EUR
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 6
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: 77 BONN 12398
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 23-Nov-2004 12:00:00 am
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 3212115
Secure: OPEN
Status: NATIVE
Subject: CAPACITY UTILIZATION: STILL TOO LOW TO SPUR INVESTMENT CONFIDENTIAL
TAGS: ECON, EFIN, EINV, GE
To: STATE
Type: TE
vdkgvwkey: odhc://SAS/SAS.dbo.SAS_Docs/9bef37be-c288-dd11-92da-001cc4696bcc
Review Markings:
Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
22 May 2009
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009